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# Annual Financial Report

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***Maury Regional Hospital***

*June 30, 2017*



# MAURY REGIONAL HOSPITAL

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*June 30, 2017*

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**SECTION I**  
**INTRODUCTORY SECTION**

**BOARD OF TRUSTEES AND MANAGEMENT OFFICIALS**  
**June 30, 2017**

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**Board of Trustees**

Doug Williamson, Chairman

Houston Parks, Vice Chairman

Alan Watson, Secretary

Charlotte Battles

Scott Gaines

Susan Gray, M.D.

John Lay

Rodney Poling, M.D.

Mike Tyler, D.D.S.

**Management Officials**

Alan Watson, Chief Executive Officer

Nick Swift, Chief Financial Officer

Paul Betz, Chief Operating Officer

Chris Edwards, M.D., Chief Medical Officer

Deborah Lumpkins, Chief Nursing Officer



October 20, 2017

To the State of Tennessee - Comptroller of the Treasury  
Department of Audit & Municipal Division and  
Patrons of the Hospital:

State law requires all entities operating in the public sector to publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting standards generally accepted in the United States of America. Pursuant to that requirement, we hereby issue this annual financial report for Maury Regional Hospital, headquartered in Columbia, Tennessee. The reporting period is the twelve months ended June 30, 2017.

Maury Regional Hospital (the Hospital), was created in 1953 by a Private Act of the State of Tennessee. The Hospital is a proprietary enterprise fund of Maury County, Tennessee and the nine members of the Board of Trustees are appointed by the Maury County Commission to three-year terms.

As a proprietary enterprise fund of Maury County, the Hospital is required to use the same accounting principles generally accepted in the United States, otherwise known as GAAP, as similar Hospitals in the private sector. In addition to the Notes to the Financial Statements, GAAP prescribes three basic financial statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

If you have any questions about this report or need additional information, contact the Board of Trustees of Maury Regional Hospital at 1224 Trotwood Ave., Columbia, Tennessee 38401.

Respectfully Submitted,

Doug Williamson, Chairman  
Board of Trustees

**SECTION II**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Maury Regional Hospital:

### ***Report on the Combined Financial Statements***

We have audited the accompanying combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital), a part of the primary government of Maury County, Tennessee, as of and for the years ended June 30, 2017 and 2016, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Combined Financial Statements***

The Hospital's management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note A, the combined financial statements present only the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital and do not purport to, and do not, present fairly the financial position of Maury County, Tennessee as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

*Required Supplementary Information:* Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of Changes in Net Pension Liability and Related Ratios (shown on page 37) and the Schedule of Actuarial Contributions (shown on page 38) be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. However, Maury Regional Hospital has elected to omit the MD&A. Our opinion on the basic financial statements is not affected by this missing information.

We have applied certain limited procedures to the included required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information:* Our audit was conducted for the purpose of forming opinions on the Hospital's basic combined financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic combined financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Pershing Goble & Associates P.C.*

Knoxville, Tennessee  
October 20, 2017, except for our  
report on Other Information which  
is dated December 18, 2017

# MAURY REGIONAL HOSPITAL

## Combined Statements of Net Position

	June 30, 2017		June 30, 2016	
	Maury Regional Hospital	Discretely Presented Component Units	Maury Regional Hospital	Discretely Presented Component Units
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 54,151,609	\$ 701,626	\$ 48,958,736	\$ 288,606
Certificates of deposit	325,388	-	323,783	-
Investments	2,385,017	-	1,988,553	-
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately \$32,000,000 in 2017 and \$30,000,000 in 2016	36,540,745	160,522	35,101,929	731,873
Inventories	5,586,060	15,288	4,867,202	15,854
Prepaid expenses	3,006,815	66,662	3,884,663	41,156
Due (to) from affiliates	447,172	(447,172)	507,095	(507,095)
Other receivables	2,048,782	76	2,281,408	615
TOTAL CURRENT ASSETS	104,491,588	497,002	97,913,369	571,009
ASSETS LIMITED AS TO USE	55,811,701	-	63,123,459	-
EQUITY INTEREST IN JOINT VENTURES	548,589	-	259,199	-
PROPERTY, PLANT AND EQUIPMENT, net	135,806,348	3,873,922	115,640,916	4,456,797
OTHER ASSETS	3,546,652	-	4,346,627	-
TOTAL ASSETS	300,204,878	4,370,924	281,283,570	5,027,806
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension adjustments	717,845	-	4,088,642	-
Deferred amounts from debt refunding	162,765	-	183,709	-
DEFERRED OUTFLOWS OF RESOURCES	880,610	-	4,272,351	-
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 301,085,488	\$ 4,370,924	\$ 285,555,921	\$ 5,027,806

See notes to combined financial statements.

# MAURY REGIONAL HOSPITAL

## Combined Statements of Net Position - Continued

	June 30, 2017		June 30, 2016	
	Maury Regional Hospital	Discretely Presented Component Units	Maury Regional Hospital	Discretely Presented Component Units
<b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term debt	\$ 3,876,917	\$ 770,152	\$ 4,038,335	\$ 932,350
Accounts payable and accrued expenses	11,725,692	445,222	8,474,632	448,475
Accrued salaries and wages	8,907,639	26,993	5,369,345	39,535
Accrued compensated absences	5,574,907	-	5,566,782	-
Accrued workers' compensation	2,298,271	-	2,187,598	-
Estimated amounts due to third party payers, net	5,330,003	-	3,475,059	-
Interest payable	305,285	-	321,620	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>38,018,714</b>	<b>1,242,367</b>	<b>29,433,371</b>	<b>1,420,360</b>
<b>NET PENSION LIABILITY</b>	<b>6,272,211</b>		<b>9,213,931</b>	
<b>OTHER LONG-TERM LIABILITIES</b>	<b>6,623,096</b>	<b>-</b>	<b>8,246,164</b>	<b>-</b>
<b>LONG-TERM DEBT</b>				
Bonds payable	29,975,828	-	33,603,761	-
Other long-term debt	708,179	3,281,394	1,233,734	4,216,139
	<b>30,684,007</b>	<b>3,281,394</b>	<b>34,837,495</b>	<b>4,216,139</b>
Less current portion	(3,876,917)	(770,152)	(4,038,335)	(932,350)
<b>TOTAL LONG-TERM DEBT</b>	<b>26,807,090</b>	<b>2,511,242</b>	<b>30,799,160</b>	<b>3,283,789</b>
<b>NET POSITION</b>				
Net investment in capital assets	105,122,341	592,528	92,698,594	240,658
Unrestricted	118,242,036	24,787	115,164,701	82,999
<b>TOTAL NET POSITION</b>	<b>223,364,377</b>	<b>617,315</b>	<b>207,863,295</b>	<b>323,657</b>
<b>COMBINED LIABILITIES AND NET POSITION</b>	<b>\$ 301,085,488</b>	<b>\$ 4,370,924</b>	<b>\$ 285,555,921</b>	<b>\$ 5,027,806</b>

See notes to combined financial statements.

# MAURY REGIONAL HOSPITAL

## *Combined Statements of Revenue, Expenses and Changes in Net Position*

	<i>Year Ended June 30, 2017</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
OPERATING REVENUE		
Net patient service revenue	\$ 325,934,961	\$ 5,074,638
Other operating revenue	8,553,457	1,424
TOTAL OPERATING REVENUE	334,488,418	5,076,062
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	189,908,512	1,365,388
Supplies	66,066,655	120,309
Purchased services	22,106,712	1,010,550
Professional fees	5,090,774	1,119,537
Repairs and maintenance	4,165,561	36,667
Utilities	3,753,136	16,631
Leases	4,362,662	637,319
Insurance	2,207,966	15,707
Other expenses	10,400,719	129,125
Depreciation and amortization	17,406,862	659,933
TOTAL OPERATING EXPENSES	325,469,559	5,111,166
INCOME (LOSS) FROM OPERATIONS	9,018,859	(35,104)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	2,264,221	-
Investment income	5,265,147	-
Interest expense	(714,272)	(191,238)
Other	54,437	-
Equity in joint venture losses	(387,310)	-
TOTAL NONOPERATING REVENUE (EXPENSES)	6,482,223	(191,238)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	15,501,082	(226,342)
Capital contributions/funding	-	520,000
CHANGE IN NET POSITION	15,501,082	293,658
NET POSITION, BEGINNING OF YEAR	207,863,295	323,657
NET POSITION, END OF YEAR	\$ 223,364,377	\$ 617,315

# MAURY REGIONAL HOSPITAL

## *Combined Statements of Revenue, Expenses and Changes in Net Position - Continued*

	<i>Year Ended June 30, 2016</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
OPERATING REVENUE		
Net patient service revenue	\$ 321,997,679	\$ 5,025,497
Other operating revenue	9,701,022	1,175
TOTAL OPERATING REVENUE	331,698,701	5,026,672
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	188,752,763	1,295,615
Supplies	61,991,422	130,310
Purchased services	21,674,456	1,007,790
Professional fees	4,647,653	1,214,419
Repairs and maintenance	3,958,678	60,726
Utilities	3,781,694	17,472
Leases	4,557,378	630,415
Insurance	2,034,650	11,880
Other expenses	9,856,871	122,893
Depreciation and amortization	17,258,717	675,260
TOTAL OPERATING EXPENSES	318,514,282	5,166,780
INCOME (LOSS) FROM OPERATIONS	13,184,419	(140,108)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	2,417,587	-
Investment income	1,275,169	-
Interest expense	(969,183)	(228,556)
Other	(157,120)	-
Equity in joint venture losses	(229,355)	-
TOTAL NONOPERATING REVENUE (EXPENSES)	2,337,098	(228,556)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	15,521,517	(368,664)
Capital contributions/funding	-	980,000
CHANGE IN NET POSITION	15,521,517	611,336
NET POSITION, BEGINNING OF YEAR	192,341,778	(287,679)
NET POSITION, END OF YEAR	\$ 207,863,295	\$ 323,657

# MAURY REGIONAL HOSPITAL

## Combined Statements of Cash Flows

	<i>Maury Regional Hospital</i> <i>Year Ended June 30,</i>	
	<i>2017</i>	<i>2016</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from patients and insurance programs	\$ 325,650,963	\$ 319,285,638
Payments to vendors for supplies and other	(114,684,212)	(114,739,868)
Payments to and on behalf of employees	(187,174,362)	(186,107,731)
Other receipts	9,775,308	4,998,818
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>33,567,697</b>	<b>23,436,857</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:</b>		
Contributions and grants	2,264,221	2,417,587
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(37,236,557)	(16,713,069)
Proceeds from sale of equipment	601,521	978,962
Payments on long-term debt	(4,088,255)	(4,142,384)
Interest paid on long-term debt	(1,052,596)	(1,035,559)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(41,775,887)</b>	<b>(20,912,050)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income received on cash and investments	2,157,087	1,275,169
Proceeds from maturities of certificates of deposit	649,171	645,947
Purchase of certificates of deposit	(650,776)	(647,566)
Proceeds from the sale of investments	10,023,354	5,808,153
Investment in joint venture	(676,700)	(588,000)
Issuance of notes receivable	(365,294)	(378,064)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>11,136,842</b>	<b>6,115,639</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,192,873</b>	<b>11,058,033</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>48,958,736</b>	<b>37,900,703</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 54,151,609</b>	<b>\$ 48,958,736</b>

See notes to combined financial statements.

# MAURY REGIONAL HOSPITAL

## Combined Statements of Cash Flows - Continued

	<i>Maury Regional Hospital</i>	
	<i>Year Ended June 30,</i>	
	<i>2017</i>	<i>2016</i>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 9,018,859	\$ 13,184,419
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	17,406,862	17,258,717
Provision for bad debts	25,105,738	24,139,877
Amortization of deferred pension adjustments	429,077	1,094,848
Changes in:		
Patient accounts receivable	(26,544,554)	(25,575,566)
Inventories	(718,858)	(85,948)
Prepaid expenses	877,848	(587,635)
Due from affiliates	59,923	48,097
Other assets	792,774	(695,037)
Accounts payable and accrued expenses	3,251,060	(1,563,483)
Accrued salaries and wages	3,538,294	(3,482,296)
Accrued compensated absences	8,125	1,008,316
Accrued workers' compensation	110,673	138,585
Estimated amounts due to third party payers	1,854,944	(2,523,331)
Other long-term liabilities	(1,623,068)	1,077,294
TOTAL ADJUSTMENTS	24,548,838	10,252,438
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 33,567,697	\$ 23,436,857
SUPPLEMENTAL INFORMATION:		
Equipment acquired through capital leases	\$ 277,700	\$ 70,000

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements*

*Years Ended June 30, 2017 and 2016*

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#### NOTE A--ORGANIZATION

Maury Regional Hospital (the Hospital) is operated and maintained by Maury County, Tennessee, under authority of and in compliance with the provisions of Chapter 125 of the Tennessee Private Acts of 1996 (the Private Acts). The federal, state, and local governments participated in the cost of constructing and equipping the Hospital under the Hill-Burton Act. For financial reporting purposes, the Hospital is considered an enterprise fund of Maury County, Tennessee (the County).

The Hospital's primary mission is to provide healthcare services to the residents of Southern and Middle Tennessee, including Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry, Wayne, and Williamson counties. The financial statements present the Hospital and its component units. The Hospital is comprised of the following operating entities:

*Maury Regional Medical Center (MRMC)*, located in Columbia, Tennessee, has been in operation since 1953 and presently has a 275-bed capacity with 20 beds designated for skilled nursing care, and also includes five medical office buildings in its service area.

*Marshall Medical Center* is an acute care hospital, located in Lewisburg, Tennessee, which was acquired by the Hospital in 1995 and is designated a Critical Access Hospital with 25 licensed beds.

*Wayne Medical Center (WMC)* is an acute care hospital with an 80-bed capacity located in Waynesboro, Tennessee, and has been leased by the Hospital since 1995 (see Note J).

*Blended Component Units:* The combined financial statements include the following blended component units that provide healthcare services that support the Hospital's mission:

*Maury Regional Medical Group, formerly Family Health Group, Inc., (MRMG)* is a nonprofit corporation which acquires, owns, operates, and manages physician practices in the Hospital's service area. The Hospital is the sole member of MRMG and funds its operating losses.

*Maury Regional Ambulatory Surgery Center (the Surgery Center)* is a nonprofit corporation that provides medical care to non-emergent patients in the Hospital's service area. The Hospital is the sole member of the Surgery Center and funds its operating losses.

*Maury Regional Healthcare Foundation (the Foundation)* is a not-for-profit organization formed to coordinate the fundraising activities of the Hospital. The Hospital is the sole member of the Foundation and appoints all Board members. The Hospital also funds all operating expenses of the Foundation.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

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*Discretely Presented Component Units:* The discretely presented component units column in the financial statements includes joint ventures in which the Hospital has a majority ownership. The Hospital's intent in owning a portion of these joint ventures is to expand the healthcare services it provides. They are reported in a separate column to emphasize that they are legally separate from the Hospital and include the following entities:

*Spring Hill Imaging Center, LLC (the Imaging Center)* owns and operates an outpatient center that provides diagnostic and radiology services to patients in the Hospital's service area. The Imaging Center is owned 51% by the Hospital. The financial reports of the Imaging Center may be obtained by mailing a request to 5421 Main Street, Spring Hill, Tennessee 37174.

*Vanderbilt-Maury Radiation Oncology, LLC (VMRO)* owns and operates an outpatient center that provides radiation oncology treatment services to patients in the Hospital's service area. VMRO is owned 60% by the Hospital. The financial reports of VMRO may be obtained by mailing a request to 1003 Reserve Boulevard, Suite 120, Spring Hill, Tennessee 37174.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Method of Accounting:* The Hospital utilizes the enterprise fund method of accounting. Revenue and expenses are recorded on the accrual basis using the economic resources measurement focus.

*Estimates:* The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents:* Cash and cash equivalents includes cash on hand, deposits in banks and investments with a maturity of three months or less when purchased, excluding any amounts whose use is limited by Board designation.

*Inventories:* Inventories consist principally of medical and surgical supplies and are reported at the lower of cost or market, with cost determined by the first-in, first-out method.

*Patient Accounts Receivable:* Patient accounts receivable are reported net of an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third-party payer programs. The bad debt allowance is estimated based upon the age of the account, prior experience and any unusual circumstances which

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

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affect the collectibility. The Hospital's policy does not require collateral or other security for patient accounts receivable and the Hospital routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

*Investments and Assets Limited as to Use:* Investments and assets limited as to use are reported at estimated fair value based on quoted market prices. Interest, dividends, and gains and losses (realized and unrealized) are included in investment income. The Board has designated certain assets as limited as to use for future capital improvements.

*Property, Plant and Equipment:* Property, plant and equipment is reported at cost or fair value at date of gift, if donated. The Hospital has established a capitalization threshold of \$1,000. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements. Interest costs incurred on applicable borrowings outstanding during the construction period of capital assets is capitalized as part of the cost of acquiring the asset and is amortized on the same basis as the related capital asset. Costs of maintenance and repairs are charged to expense when incurred. The Hospital periodically reviews property, plant, and equipment for indications of potential impairment. Management does not believe any impairment exists as of June 30, 2017.

*Intangible Assets:* Intangible assets, including goodwill, are amortized over their estimated useful life and included in other assets in the combined financial statements.

*Compensated Absences:* The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation. Prior to July 1, 2016, employees also earned sick leave benefits based on varying rates depending on years of service and accumulated sick leave up to a specified maximum. Employees were not paid for accumulated sick leave if they left before retirement. However, employees who retired after the age of sixty could convert accumulated sick leave to termination payments. The estimated amount of sick leave which will ultimately be payable as termination payments totals approximately \$995,000 and \$1,090,000 at June 30, 2017 and 2016, respectively, and is reported as a noncurrent liability in the combined financial statements. The Hospital's paid time off policy was amended effective July 1, 2015 to eliminate future sick pay accruals and freeze existing sick pay accrual amounts at their June 30, 2015 amounts. In addition, the accrual for compensated absences at June 30, 2015 was modified to utilize a "years of service" factor which served to reduce the amount recorded. Due to uncertainties in this estimate, it is at least reasonably possible that management's estimate could change in 2018.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

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*Other Long-Term Liabilities* consists primarily of post-retirement benefits for compensated absences (discussed above) and healthcare benefits (Note K), and reserves for claim audits (Note K).

*Net Position:* *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* is the remaining net assets that do not meet the definition of *net investment in capital assets*. There were no assets in a restricted position at June 30, 2017.

*Net Patient Service Revenue:* Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payers. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

*Operating Activities:* The Hospital defines operating activities as reported on the Combined Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as investment income and interest expense, are considered nonoperating revenue and expenses.

*Contributions and Grants:* Revenues from contributions and grants are recognized when all eligibility requirements are met. Contributions and grants may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions, if any, are reported after nonoperating revenue and expenses.

*Income Taxes:* The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from federal income taxes. At June 30, 2017, management does not believe the Hospital holds any uncertain tax positions that would require financial statement recognition or disclosure.

*Recently Issued Accounting Pronouncements:* In June 2017, the GASB issued Statement No. 87, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases with a maximum possible term exceeding 12 months. The lease liability is measured at the present value of payments made during the lease term. In later periods, the lessee should amortize the discount of the lease liability and report it as an outflow of resources (interest expense) for the period. The lease asset is measured as the sum of the amount of the initial measurement of the lease liability, lease payments made to the lessor at/before the beginning of the lease term, and any initial direct costs. A lease asset is amortized over the shorter of the lease term or the useful life of the

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

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underlying asset and reported as an amortization expense. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019; early adoption is permitted. Management is currently evaluating the impact of the adoption of the Statement on the combined financial statements.

*Reclassifications:* Certain 2016 amounts in the accompanying combined financial statements have been reclassified to conform with the 2017 presentation.

#### NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third-party payers that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and the estimated payments from third party payers is recorded as a reduction of gross patient service charges. Revenue for patient service charges has been adjusted to the amounts estimated to be receivable under third party payer arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2018. Net patient service revenue for the years ended June 30, 2017 and 2016 increased by approximately \$950,000 and \$770,000, respectively, due to adjustments of estimates or final settlements of prior periods.

A summary of the payment arrangements with significant third-party payers follows:

*Medicare:* Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services based on a per diem or on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low-income patients and such amounts are not guaranteed in future periods. Approximately \$10,900,000 and \$11,400,000 of net patient accounts receivable are due from the Medicare program at June 30, 2017 and 2016, respectively.

*TennCare:* The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately \$2,300,000 and \$2,800,000 of net patient accounts receivable are from payers under the TennCare program at June 30, 2017 and 2016, respectively.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

During 2017 and 2016, the Hospital received additional distributions under the TennCare Essential Access, federal matching and other programs totaling approximately \$1,670,000 and \$2,100,000, respectively. Future distributions under these programs are not guaranteed. Such amounts are subject to potential recoupment.

*Other Payers:* The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined per diem amounts.

*Charity Care:* The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue. The estimated direct and indirect cost of providing these services totaled approximately \$4,770,000 and \$4,900,000 in 2017 and 2016, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue is as follows:

	<i>Year Ended June 30,</i>	
	<i>2017</i>	<i>2016</i>
Patient service charges	\$ 1,033,744,308	\$ 1,029,699,503
Contractual adjustments	(663,407,040)	(664,863,204)
Provision for bad debts	(25,105,738)	(24,139,877)
Charity care	(19,296,569)	(18,698,743)
	<u>\$ 325,934,961</u>	<u>\$ 321,997,679</u>

#### NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE

The carrying amount of deposits and investments included in the Hospital's Combined Statements of Net Position is as follows:

	<i>2017</i>	<i>2016</i>
Bank deposits	\$ 58,537,805	\$ 66,278,960
Investments	54,135,910	48,115,571
	<u>\$ 112,673,715</u>	<u>\$ 114,394,531</u>

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2017 and 2016

These amounts are included in the combined financial statements as follows:

	<i>2017</i>	<i>2016</i>
Cash and cash equivalents	\$ 54,151,609	\$ 48,958,736
Certificates of deposit	325,388	323,783
Investments	2,385,017	1,988,553
Assets limited as to use	55,811,701	63,123,459
	<u>\$ 112,673,715</u>	<u>\$ 114,394,531</u>

The Hospital holds deposits only in banks participating in the State of Tennessee Collateral Pool and in banks that provide collateral for all deposits or banks that are members of the Federal Deposit Insurance Corporation (FDIC).

Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's Collateral Pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the State of Tennessee's Collateral Pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the State of Tennessee's Collateral Pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the State of Tennessee's Collateral Pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2017, the Hospital's bank balances for deposits totaled \$56,622,685, a majority of which was insured by the FDIC or by the bank's participation in the State of Tennessee's Collateral Pool. Remaining deposits totaling \$133,742 are collateralized by securities held by the financial institution and pledged as collateral for the Hospital's deposits.

The estimated fair values and maturities for investments, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows at June 30, 2017:

<i>Investment Type</i>	<i>Carrying Amount</i>	<i>Investment Maturities in Years</i>		
		<i>Less than 1</i>	<i>1-5</i>	<i>N/A</i>
Mutual funds - fixed income	\$ 19,097,579	\$ -	\$ -	\$ 19,097,579
Mutual funds - equity	23,423,845	-	-	23,423,845
Government agency bonds	3,544,190	500,050	3,044,140	-
Corporate and municipal bonds	8,070,296	1,399,504	6,670,792	-
	<u>\$ 54,135,910</u>	<u>\$ 1,899,554</u>	<u>\$ 9,714,932</u>	<u>\$ 42,521,424</u>

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

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The Hospital was formed under the provisions of the Private Acts. Therefore, available funds are invested in accordance with a formal investment policy that is approved by the Board.

*Interest Rate Risk:* As a means to limiting its exposure to fair value losses by rising interest rates, the Hospital's investment policy limits investment in U.S. treasury securities, government agency bonds or notes, corporate bonds, and municipal bonds to those with maturities of less than five years.

*Credit Risk:* The Hospital's investment policy restricts investments in corporate bonds to those with a credit rating of at least BBB and municipal bonds to those with a rating of at least AA. Mutual funds' underlying investments must meet the same credit ratings as other investments. The credit rating of the Hospital's government agency, corporate and municipal bonds is as follows at June 30, 2017:

<i>Rating</i>	<i>Carrying Amount</i>
AAA	\$ 250,900
AA	5,033,330
A	3,432,050
BBB	2,898,206
	<u>\$ 11,614,486</u>

*Concentration of Credit Risk:* The Hospital's investment policy limits investments in corporate bonds to 60% of total investments with no security issuer exceeding 5% of total investments and municipal bonds to 25% of total investments with no security issuer exceeding 5% of total investments. There is no limit on investments in U.S. treasury securities, government agency bonds or notes. Mutual funds containing corporate bonds should not exceed 50% of total investments and a single mutual fund should not exceed 25% of total investments. Equity investments cannot exceed 40% of total investments. An investment in the equity of a single corporation and a single equity mutual fund should not exceed 5% and 15%, respectively, of total investments.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral. All investments are in the Hospital's name at a custodial bank.

#### NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment and related accumulated depreciation for the years ended June 30, 2017 and 2016 is as follows:

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2017 and 2016

	<i>Balance July 1, 2016</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2017</i>
<u>Capital assets being depreciated</u>				
Land improvements	\$ 5,856,766	\$ 188,895	\$ -	\$ 6,045,661
Buildings	188,901,780	12,276,824	-	201,178,604
Equipment	179,993,200	18,540,758	(1,555,673)	196,978,285
Total capital assets being depreciated	374,751,746	31,006,477	(1,555,673)	404,202,550
Less accumulated depreciation for:				
Land improvements	4,523,886	204,641	-	4,728,527
Buildings	124,128,934	7,305,753	(8,630)	131,426,057
Equipment	147,081,465	9,291,346	(1,107,881)	155,264,930
Total accumulated depreciation	275,734,285	16,801,740	(1,116,511)	291,419,514
Total capital assets being depreciated, net	99,017,461	14,204,737	(439,162)	112,783,036
<u>Capital assets not being depreciated</u>				
Land	7,656,672	-	-	7,656,672
Construction in progress	8,966,783	6,507,780	(107,923)	15,366,640
Total capital assets not being depreciated	16,623,455	6,507,780	(107,923)	23,023,312
Total capital assets, net	\$ 115,640,916	\$ 20,712,517	\$ (547,085)	\$ 135,806,348
	<i>Balance July 1, 2015</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2016</i>
<u>Capital assets being depreciated</u>				
Land improvements	\$ 5,613,433	\$ 248,333	\$ (5,000)	\$ 5,856,766
Buildings	182,723,713	6,247,220	(69,153)	188,901,780
Equipment	174,331,171	10,946,345	(5,284,316)	179,993,200
Total capital assets being depreciated	362,668,317	17,441,898	(5,358,469)	374,751,746
Less accumulated depreciation for:				
Land improvements	4,690,978	(162,092)	(5,000)	4,523,886
Buildings	116,113,277	8,076,622	(60,965)	124,128,934
Equipment	142,773,037	8,885,891	(4,577,463)	147,081,465
Total accumulated depreciation	263,577,292	16,800,421	(4,643,428)	275,734,285
Total capital assets being depreciated, net	99,091,025	641,477	(715,041)	99,017,461
<u>Capital assets not being depreciated</u>				
Land	8,078,966	-	(422,294)	7,656,672
Construction in progress	9,624,359	(657,576)	-	8,966,783
Total capital assets not being depreciated	17,703,325	(657,576)	(422,294)	16,623,455
Total capital assets, net	\$ 116,794,350	\$ (16,099)	\$ (1,137,335)	\$ 115,640,916

During 2017 and 2016, the Hospital capitalized interest expense on construction projects totaling approximately \$297,000 and \$187,000, respectively. Construction in progress at June 30, 2017 consists of facility renovations and information system upgrades, and the total estimated costs required to complete these projects is approximately \$24,600,000.

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2017 and 2016

#### NOTE F--LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2017	2016
Bonds Payable:		
Series 2015, Maury County General Obligation Refunding and Public Improvement Bonds issued on behalf of the Hospital, with interest rates ranging from 2.00% to 5.00%, with the final payment due April 1, 2027.	\$ 25,745,000	\$ 28,710,000
Series 2012B, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates at 2.00%, with the final payment due April 1, 2020.	1,005,000	1,325,000
Total bonds payable	26,750,000	30,035,000
Unamortized premiums	3,225,828	3,568,761
Total bonds payable, net of unamortized premiums	29,975,828	33,603,761
Other Long-term Debt:		
Capital lease obligations - see Note I	708,179	1,233,734
	30,684,007	34,837,495
Less: current portion	3,876,917	4,038,335
	\$ 26,807,090	\$ 30,799,160

The Hospital's bonds payable are general obligation bonds of Maury County, Tennessee. The bonds were issued for the purpose of acquiring property and equipment or for the retirement of previously outstanding bonds and notes and to pay issuance costs. The bonds are secured by unlimited ad valorem taxes on all taxable property within the County.

The Series 2015 Bonds were issued to finance the constructing, repairing, renovating and equipping of the Hospital in addition to prepaying the Hospital's outstanding notes payable and the remaining portion of the Series 2006 Bonds. The Series 2015 Bonds maturing on or after April 1, 2026 are subject to redemption prior to maturity at the option of the County on April 1, 2025 or thereafter, at a redemption price of par plus accrued interest.

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2017 (including the capital lease obligations and excluding unamortized premiums) follows:

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2017 and 2016

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 3,876,917	\$ 1,240,898
2019	3,603,873	1,077,445
2020	3,742,389	907,966
2021	3,545,000	732,250
2022	2,105,000	555,000
2023-2027	10,585,000	1,196,600
	<u>\$ 27,458,179</u>	<u>\$ 5,710,159</u>

A schedule of changes in long-term debt for the years ended June 30, 2017 and 2016 is as follows:

	<u>Balance</u>	<u>Additions/</u>	<u>Payments/</u>	<u>Balance</u>	<u>Amounts Due</u>
	<u>July 1, 2016</u>	<u>Amortization</u>	<u>Maturities</u>	<u>June 30, 2017</u>	<u>Within One Year</u>
Bonds payable	\$ 30,035,000	\$ -	\$ (3,285,000)	\$ 26,750,000	\$ 3,280,000
Unamortized premiums	3,568,761	(342,933)	-	3,225,828	-
Other long-term debt	1,233,734	277,700	(803,255)	708,179	596,917
	<u>\$ 34,837,495</u>	<u>\$ (65,233)</u>	<u>\$ (4,088,255)</u>	<u>\$ 30,684,007</u>	<u>\$ 3,876,917</u>

	<u>Balance</u>	<u>Additions/</u>	<u>Payments/</u>	<u>Balance</u>	<u>Amounts Due</u>
	<u>July 1, 2015</u>	<u>Amortization</u>	<u>Maturities</u>	<u>June 30, 2016</u>	<u>Within One Year</u>
Bonds payable	\$ 33,395,000	\$ -	\$ (3,360,000)	\$ 30,035,000	\$ 3,285,000
Unamortized premiums	3,911,694	(342,933)	-	3,568,761	-
Other long-term debt	1,946,118	70,000	(782,384)	1,233,734	753,335
	<u>\$ 39,252,812</u>	<u>\$ (272,933)</u>	<u>\$ (4,142,384)</u>	<u>\$ 34,837,495</u>	<u>\$ 4,038,335</u>

### NOTE G--PENSION PLAN

*Plan Description:* The Hospital sponsors and is the plan administrator of the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan. Although it has not expressed any intention to do so, the Hospital has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. The Plan's financial report may be obtained by contacting Human Resources at (931) 381-1111, extension 1089.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997, 1998 or 2001. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

**Benefits Provided:** In addition to normal retirement benefits, the Plan also provides for early retirement and death benefits. Retirement benefits are calculated as a percent of the employee's highest average compensation during 60 consecutive months of the last 120 months of employment. Employees earn full retirement benefits once an employee has reached the age of 65. Early retirement benefits are available once an employee has reached age 55 and 5 years of service at a reduced rate based on age. Death benefits equal the actuarial equivalent value of the employee's vested accrued benefit as of the date of death. An employee who terminates service for other reasons after five years of credited service will receive retirement benefits at the normal retirement date.

**Employees Covered:** At April 30 (the measurement date), the following employees were included in the Plan:

	<i>2017</i>	<i>2016</i>
Active employees - accruing benefits	51	60
Active employees - frozen benefits	281	293
Inactive employees with deferred benefits	250	262
Disabled	6	7
Inactive employees currently receiving benefits	557	550
	<u>1,145</u>	<u>1,172</u>

**Contributions:** The Hospital funds the Plan as contributions are approved by the Board of Trustees based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned during the year with an additional amount to finance any unfunded accrued liability.

**Net Pension Liability:** The Hospital's net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 30, 2017 and 2016. The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as of April 30:

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2017 and 2016

	2017	2016
Inflation	2.5%	2.5%
Salary increases	4.0% - 7.5%	4.0% - 7.5%
Investment rate of return	8.0%	8.0%
Discount rate	8.0%	8.0%

For 2017, mortality rates were based on the IRS 2017 Static Mortality Table with mortality projected after year 2000 under Projections Scale AA to 15 years beyond the valuation date of non-annuitants and 7 years beyond the valuation date for annuitants. For 2016, mortality rates were based on the 1994 Group Annuity Mortality Basic Table with mortality improvement projected to the valuation year under Projection Scale AA. The actuarial valuation method used was entry age normal method.

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows as of April 30:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large cap equities	45.00%	9.25%
Small cap equities	6.00%	11.00%
International equities	10.00%	9.75%
Emerging market equities	4.00%	12.50%
Real estate	5.00%	8.75%
Fixed income	30.00%	4.25%

The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees assuming the actuarially determined contributions are made each year, although not required by the funding policy. Therefore, the discount rate for determining the total pension liability is equal to the long-term expected rate of return on pension plan investments.

*Changes in the Net Pension Liability:* Changes in the Hospital's net pension liability are as follows for the years ended June 30:

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2017 and 2016

	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balance, June 30, 2015	\$ 48,390,657	\$ 44,585,513	\$ 3,805,144
Service cost	346,713	-	346,713
Interest	3,781,511	-	3,781,511
Experience gains or losses	(68,783)	-	(68,783)
Benefit payments	(3,255,490)	(3,255,490)	-
Administrative expenses	-	(210,087)	210,087
Investment income (loss)	-	(1,990,259)	1,990,259
Employer contributions	-	851,000	(851,000)
Balance, June 30, 2016	49,194,608	39,980,677	9,213,931
Service cost	293,742	-	293,742
Interest	3,821,842	-	3,821,842
Liability gains or losses	(492,525)	-	(492,525)
Assumptions changes	(377,337)	-	(377,337)
Benefit payments	(3,430,639)	(3,430,639)	-
Administrative expenses	-	(179,476)	179,476
Investment income (loss)	-	5,386,918	(5,386,918)
Employer contributions	-	980,000	(980,000)
Balance, June 30, 2017	\$ 49,009,691	\$ 42,737,480	\$ 6,272,211

The Plan's fiduciary net position as a percentage of the total pension liability was approximately 87% and 81% as of June 30, 2017 and 2016, respectively.

The following presents the net pension liability of the Hospital calculated using the current discount rate of 8.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	<i>1% Decrease 7.0%</i>	<i>Current Rate 8.0%</i>	<i>1% Increase 9.0%</i>
Net pension liability	\$ 10,822,199	\$ 6,272,211	\$ 2,319,511

*Pension Expense and Deferred Outflows and Deferred Inflows of Resources:* For the years ended June 30, 2017 and 2016, the Hospital recognized pension expense totaling \$1,495,314 and \$1,929,533, respectively. At June 30, 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources from the following sources:

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2017 and 2016

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Experience gains (losses)	\$ -	\$ (260,019)
Assumption changes	-	(188,668)
Investment losses (gains)	1,166,532	-
	<u>\$ 1,166,532</u>	<u>\$ (448,687)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ (79,922)
2019	638,834
2020	622,793
2021	(463,860)

#### NOTE H--OTHER RETIREMENT PLANS

The Hospital sponsors and administers a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's contribution in 2017 and 2016 consisted of a matching contribution equal to 100% of the first 3% of annual compensation and an additional matching contribution equal to 125% of the employees' contribution from 4-5% of annual compensation if the employee had five or more years of service. The Hospital's total contributions for the years ended June 30, 2017 and 2016 were approximately \$4,280,000 and \$4,080,000, respectively. Hospital employees' total contributions for the years ended June 30, 2017 and 2016 were approximately \$6,560,000 and \$6,500,000, respectively.

#### NOTE I--LEASES

*Capital Leases:* The Hospital leases medical equipment under various capital lease agreements with interest rates ranging from 2.4% to 4.5%. A summary of the leased equipment, which is included in property, plant and equipment, at June 30 is as follows:

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2017 and 2016

	2017	2016
Equipment acquired under capital leases	\$ 3,785,577	\$ 3,731,077
Less accumulated amortization	(3,062,723)	(2,493,720)
	<u>\$ 722,854</u>	<u>\$ 1,237,357</u>

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2017:

<u>Year Ending June 30,</u>	
2018	\$ 542,640
2019	154,893
2020	<u>27,556</u>
Total minimum lease payments	725,089
Amount representing interest	<u>(16,910)</u>
Present value of minimum lease payments	<u>\$ 708,179</u>

*Operating Leases:* The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements totaled approximately \$4,360,000 and \$4,560,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease commitments for all significant non-cancelable operating leases, excluding discretely presented component units, are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 2,440,442
2019	2,258,849
2020	2,273,821
2021	1,774,976
2022	1,653,286
2023-2027	7,207,894
2028-2032	2,991,889
2033-2037	<u>174,393</u>
	<u>\$ 20,775,550</u>

*Leases with Physicians:* The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms. Rental income under these

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

lease agreements totaled approximately \$1,560,000 and \$1,940,000 for the years ended June 30, 2017 and 2016, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases to physicians are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 869,956
2019	709,220
2020	523,047
2021	499,045
2022	502,977
	<u>\$ 3,104,245</u>

#### NOTE J--LEASED HEALTHCARE FACILITIES

Effective July 1, 2014, the Hospital entered into a five-year lease under a lease arrangement with Wayne County for the operation of several Wayne County healthcare facilities, including the county hospital, ambulance service and medical office buildings. The lease also extends to all equipment, improvements, fixtures and related personal property. The annual lease expense is \$50,000 each year and an annual capital improvement commitment of \$150,000. The lease provides for two five-year renewal options which occur automatically unless the Hospital provides notice of its intent to terminate the lease at least 180 days in advance.

#### NOTE K--COMMITMENTS AND CONTINGENCIES

*General Liability Claims:* The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant losses to the Hospital.

*Malpractice Liability Claims:* The Hospital is subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to \$300,000 for injury or death per person and \$700,000 per occurrence. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims-made basis with limits of \$1,000,000 per occurrence with a retention of \$250,000 per claim and a \$3,000,000 annual aggregate with a \$750,000 annual aggregate retention. The Hospital has estimated and recorded a liability for reported claims totaling approximately \$1,170,000 and \$960,000 at June 30, 2017 and 2016, respectively. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

#### *Years Ended June 30, 2017 and 2016*

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operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

*Workers' Compensation Claims:* The Hospital is covered for workers' compensation claims through an insurance policy with a per claim and policy limit of \$500,000. Management has recorded an accrual for the estimated liability related to claims reported as of June 30, 2017 and 2016. The Hospital has not estimated any liability for incurred but not reported claims.

*Healthcare Benefits:* The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependents. Stop-loss insurance is purchased for annual claims per individual exceeding \$300,000 with an additional aggregating specific amount of \$100,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately \$3,070,000 and \$3,060,000 at June 30, 2017 and 2016, respectively. Prior to July 1, 2015, employees that retired after attaining age sixty and completing twenty years of service received continued coverage under the Hospital's health benefit program until they attain age sixty-five or become eligible for Medicare benefits. The Hospital's policy for healthcare benefits for retired employees was amended effective July 1, 2015, to eliminate future accruals and payments of healthcare benefits for employees not yet retired as of June 30, 2015. The estimated amount of retirement health benefits payable totaled approximately \$435,000 and \$855,000 at June 30, 2017 and 2016, respectively, and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in the estimate, it is at least reasonably possible that management's estimate could change in 2018.

*Healthcare Industry:* The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts that may be payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, have been estimated and recorded as Other Long-term Liabilities in the combined financial statements and therefore, any additional impact on the combined financial statements will not be significant. However, due to the uncertainties involved, management's estimate could change in the near future.

## MAURY REGIONAL HOSPITAL

### Notes to Combined Financial Statements - Continued

#### Years Ended June 30, 2017 and 2016

**Healthcare Reform:** In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. The legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Changes to existing TennCare coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required as a result of such legislation over a period of several years. Accordingly, the impact of any future regulations is not determinable.

#### NOTE L--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying value of its financial instruments, including cash and cash equivalents, investments, patient accounts and other receivables, accounts payable and accrued expenses, and estimated liability for refunds are at fair value or approximate fair value due to the nature and short-term maturities of these instruments. Management estimates that the fair value of its capital lease obligations and long-term debt was approximately \$29,600,000 and \$39,800,000 as of June 30, 2017 and 2016, respectively.

#### NOTE M--FAIR VALUE MEASUREMENT

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the value inputs used to measure the fair value of the asset. *Level 1* inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets; *Level 2* inputs are other observable inputs; and *Level 3* inputs are unobservable.

The Hospital has the following recurring fair value measurements for investments:

	<i>Carrying Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<b>June 30, 2017</b>				
Mutual funds - fixed income	\$ 19,097,579	\$ 19,097,579	\$ -	\$ -
Mutual funds - equity	23,423,845	23,423,845	-	-
Governmental agency bonds	3,544,190	-	3,544,190	-
Corporate and municipal bonds	8,070,296	-	8,070,296	-
	<u>\$ 54,135,910</u>	<u>\$ 42,521,424</u>	<u>\$ 11,614,486</u>	<u>\$ -</u>

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2017 and 2016

	<i>Carrying Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<b>June 30, 2016</b>				
Mutual funds - fixed income	\$ 12,042,238	\$ 12,042,238	\$ -	\$ -
Mutual funds - equity	19,315,571	19,315,571	-	-
Governmental agency bonds	7,095,511	-	7,095,511	-
Corporate and municipal bonds	9,662,251	-	9,662,251	-
	<u>\$ 48,115,571</u>	<u>\$ 31,357,809</u>	<u>\$ 16,757,762</u>	<u>\$ -</u>

The fair value of investments in U.S. government agency bonds, municipal bonds and corporate bonds is estimated based on matrix pricing of similar assets or market corroborated pricing.

## NOTE N--BLENDED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's blended component units is as follows:

### Statements of Net Position - June 30, 2017

	<i>Hospital</i>	<i>MRMG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
<b>Assets</b>						
Current assets	\$ 99,925,433	\$ 3,551,390	\$ 295,545	\$ 2,153,544	\$ (1,881,496)	\$ 104,044,416
Due (to) from affiliates	2,723,093	125,581	(2,371,124)	-	(30,378)	447,172
Property, plant, and equipment	130,712,235	1,406,799	3,687,314	-	-	135,806,348
Other assets	67,020,261	530,902	338,753	-	(7,982,974)	59,906,942
	<u>300,381,022</u>	<u>5,614,672</u>	<u>1,950,488</u>	<u>2,153,544</u>	<u>(9,894,848)</u>	<u>300,204,878</u>
<b>Deferred Outflows of Resources</b>						
Deferred pension adjustments	717,845	-	-	-	-	717,845
Deferred amounts from debt refunding	162,765	-	-	-	-	162,765
	<u>880,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>880,610</u>
<b>COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 301,261,632</u>	<u>\$ 5,614,672</u>	<u>\$ 1,950,488</u>	<u>\$ 2,153,544</u>	<u>\$ (9,894,848)</u>	<u>\$ 301,085,488</u>
<b>Liabilities</b>						
Current liabilities	\$ 32,018,853	\$ 5,996,115	\$ 1,915,620	\$ -	\$ (1,911,874)	\$ 38,018,714
Long-term debt	26,807,090	-	-	-	-	26,807,090
Other liabilities	12,895,307	-	-	-	-	12,895,307
	<u>71,721,250</u>	<u>5,996,115</u>	<u>1,915,620</u>	<u>-</u>	<u>(1,911,874)</u>	<u>77,721,111</u>
<b>Net Position</b>						
Net investment in capital assets	100,028,228	1,406,799	3,687,314	-	-	105,122,341
Unrestricted	129,512,154	(1,788,242)	(3,652,446)	2,153,544	(7,982,974)	118,242,036
	<u>229,540,382</u>	<u>(381,443)</u>	<u>34,868</u>	<u>2,153,544</u>	<u>(7,982,974)</u>	<u>223,364,377</u>
	<u>\$ 301,261,632</u>	<u>\$ 5,614,672</u>	<u>\$ 1,950,488</u>	<u>\$ 2,153,544</u>	<u>\$ (9,894,848)</u>	<u>\$ 301,085,488</u>

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2017 and 2016

#### Statements of Net Position - June 30, 2016

	<i>Hospital</i>	<i>MRMG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
<b>Assets</b>						
Current assets	\$ 93,463,333	\$ 3,996,835	\$ 437,015	\$ 1,721,102	\$ (2,212,011)	\$ 97,406,274
Due (to) from affiliates	1,536,843	640	(1,029,045)	-	(1,343)	507,095
Property, plant, and equipment	109,748,493	1,703,577	4,188,846	-	-	115,640,916
Other assets	78,899,477	266,338	360,608	-	(11,797,138)	67,729,285
	<u>\$283,648,146</u>	<u>\$ 5,967,390</u>	<u>\$ 3,957,424</u>	<u>\$ 1,721,102</u>	<u>\$ (14,010,492)</u>	<u>\$281,283,570</u>
<b>Deferred Outflows of Resources</b>						
Deferred pension adjustments	4,088,642	-	-	-	-	4,088,642
Deferred amounts from debt refunding	183,709	-	-	-	-	183,709
	<u>4,272,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,272,351</u>
<b>COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$287,920,497</u>	<u>\$ 5,967,390</u>	<u>\$ 3,957,424</u>	<u>\$ 1,721,102</u>	<u>\$ (14,010,492)</u>	<u>\$285,555,921</u>
<b>Liabilities</b>						
Current liabilities	\$ 25,198,860	\$ 4,203,097	\$ 2,254,128	\$ -	\$ (2,222,714)	\$ 29,433,371
Long-term debt	30,799,160	-	-	-	-	30,799,160
Other liabilities	17,460,095	-	-	-	-	17,460,095
	<u>73,458,115</u>	<u>4,203,097</u>	<u>2,254,128</u>	<u>-</u>	<u>(2,222,714)</u>	<u>77,692,626</u>
<b>Net Position</b>						
Net investment in capital assets	86,806,171	1,703,577	4,188,846	-	-	92,698,594
Unrestricted	127,656,211	60,716	(2,485,550)	1,721,102	(11,787,778)	115,164,701
	<u>214,462,382</u>	<u>1,764,293</u>	<u>1,703,296</u>	<u>1,721,102</u>	<u>(11,787,778)</u>	<u>207,863,295</u>
	<u>\$287,920,497</u>	<u>\$ 5,967,390</u>	<u>\$ 3,957,424</u>	<u>\$ 1,721,102</u>	<u>\$ (14,010,492)</u>	<u>\$285,555,921</u>

#### Statements of Revenue, Expenses and Changes in Net Position - Year Ended June 30, 2017

	<i>Hospital</i>	<i>MRMG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
<b>Operating Revenue</b>						
Net patient service revenue	\$295,082,927	\$ 30,224,938	\$ 627,096	\$ -	\$ -	\$325,934,961
Other operating revenue	14,880,940	6,792,316	-	-	(13,119,799)	8,553,457
	<u>309,963,867</u>	<u>37,017,254</u>	<u>627,096</u>	<u>-</u>	<u>(13,119,799)</u>	<u>334,488,418</u>
<b>Operating expenses</b>	275,013,487	44,122,415	1,672,707	655,065	(13,400,977)	308,062,697
Depreciation and amortization	15,838,322	1,031,427	537,113	-	-	17,406,862
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>19,112,058</u>	<u>(8,136,588)</u>	<u>(1,582,724)</u>	<u>(655,065)</u>	<u>281,178</u>	<u>9,018,859</u>
Nonoperating revenue (expenses)	6,788,365	(1,530)	-	1,087,507	(290,537)	7,583,805
Equity in affiliate losses	(10,196,017)	-	-	-	9,808,707	(387,310)
Interest expense	(626,406)	(2,162)	(85,704)	-	-	(714,272)
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<u>15,078,000</u>	<u>(8,140,280)</u>	<u>(1,668,428)</u>	<u>432,442</u>	<u>9,799,348</u>	<u>15,501,082</u>
Capital contributions/transfers	-	5,994,544	-	-	(5,994,544)	-
<b>CHANGE IN NET POSITION</b>	<u>15,078,000</u>	<u>(2,145,736)</u>	<u>(1,668,428)</u>	<u>432,442</u>	<u>3,804,804</u>	<u>15,501,082</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>214,462,382</u>	<u>1,764,293</u>	<u>1,703,296</u>	<u>1,721,102</u>	<u>(11,787,778)</u>	<u>207,863,295</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$229,540,382</u>	<u>\$ (381,443)</u>	<u>\$ 34,868</u>	<u>\$ 2,153,544</u>	<u>\$ (7,982,974)</u>	<u>\$223,364,377</u>

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

### Years Ended June 30, 2017 and 2016

#### Statements of Revenue, Expenses and Changes in Net Position - Year Ended June 30, 2016

	<i>Hospital</i>	<i>MRMG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Eliminations</i>	<i>Hospital (Blended)</i>
Operating Revenue						
Net patient service revenue	\$284,442,188	\$ 35,991,494	\$ 1,563,997	\$ -	\$ -	\$321,997,679
Other operating revenue	14,744,999	4,494,706	-	-	(9,538,683)	9,701,022
	299,187,187	40,486,200	1,563,997	-	(9,538,683)	331,698,701
Operating expenses	260,780,235	47,519,360	2,140,348	607,529	(9,791,907)	301,255,565
Depreciation and amortization	15,794,664	1,033,097	430,956	-	-	17,258,717
INCOME (LOSS) FROM OPERATIONS	22,612,288	(8,066,257)	(1,007,307)	(607,529)	253,224	13,184,419
Nonoperating revenue (expenses)	2,921,603	(108,991)	-	1,002,592	(279,568)	3,535,636
Equity in affiliate losses	(9,517,090)	-	-	-	9,287,735	(229,355)
Interest expense	(890,345)	(1,705)	(103,477)	-	26,344	(969,183)
EXCESS OF REVENUE OVER EXPENSES	15,126,456	(8,176,953)	(1,110,784)	395,063	9,287,735	15,521,517
Capital contributions/transfers	-	9,336,888	-	-	(9,336,888)	-
CHANGE IN NET POSITION	15,126,456	1,159,935	(1,110,784)	395,063	(49,153)	15,521,517
NET POSITION, BEGINNING OF YEAR	199,335,926	604,358	2,814,080	1,326,039	(11,738,625)	192,341,778
NET POSITION, END OF YEAR	\$214,462,382	\$ 1,764,293	\$ 1,703,296	\$ 1,721,102	\$ (11,787,778)	\$207,863,295

#### Statements of Cash Flows - Year Ended June 30, 2017

	<i>Hospital</i>	<i>MRMG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Hospital (Blended)</i>
Cash flows from operating activities	\$ 34,813,105	\$ (66,982)	\$ (133,495)	\$ (1,044,931)	\$ 33,567,697
Cash flows from noncapital financing activities	1,368,267	-	-	895,954	2,264,221
Cash flows from capital and related financing activities	(42,280,338)	381,167	123,284	-	(41,775,887)
Cash flows from investing activities	10,945,289	-	-	191,553	11,136,842
Increase in cash and cash equivalents	4,846,323	314,185	(10,211)	42,576	5,192,873
Cash and cash equivalents, beginning of year	49,045,280	(263,831)	161,679	15,608	48,958,736
Cash and cash equivalents, end of year	\$ 53,891,603	\$ 50,354	\$ 151,468	\$ 58,184	\$ 54,151,609

#### Statements of Cash Flows - Year Ended June 30, 2016

	<i>Hospital</i>	<i>MRMG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Hospital (Blended)</i>
Cash flows from operating activities	\$ 19,489,287	\$ 668,512	\$ 4,282,361	\$ (1,003,303)	\$ 23,436,857
Cash flows from noncapital financing activities	1,429,608	-	-	987,979	2,417,587
Cash flows from capital and related financing activities	(16,532,581)	(62,683)	(4,316,786)	-	(20,912,050)
Cash flows from investing activities	6,101,026	-	-	14,613	6,115,639
Increase in cash and cash equivalents	10,487,340	605,829	(34,425)	(711)	11,058,033
Cash and cash equivalents, beginning of year	38,557,940	(869,660)	196,104	16,319	37,900,703
Cash and cash equivalents, end of year	\$ 49,045,280	\$ (263,831)	\$ 161,679	\$ 15,608	\$ 48,958,736

### NOTE O--DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's discretely presented component units is as follows:

# MAURY REGIONAL HOSPITAL

## Notes to Combined Financial Statements - Continued

Years Ended June 30, 2017 and 2016

### Statements of Net Position

	<i>June 30, 2017</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Assets		
Current assets	\$ 480,416	\$ 463,758
Due (to) from affiliates	(447,172)	-
Property, plant, and equipment	312,329	3,561,593
	<u>\$ 345,573</u>	<u>\$ 4,025,351</u>
Liabilities		
Current liabilities	\$ 285,537	\$ 956,830
Long-term debt	429,573	2,081,669
	<u>715,110</u>	<u>3,038,499</u>
Net Position		
Net investment in capital assets	(186,463)	778,991
Unrestricted	(183,074)	207,861
	<u>(369,537)</u>	<u>986,852</u>
	<u>\$ 345,573</u>	<u>\$ 4,025,351</u>
	<i>June 30, 2016</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Assets		
Current assets	\$ 488,823	\$ 589,281
Due (to) from affiliates	(507,095)	-
Property, plant, and equipment	356,481	4,100,316
	<u>\$ 338,209</u>	<u>\$ 4,689,597</u>
Liabilities		
Current liabilities	\$ 365,390	\$ 1,054,970
Long-term debt	500,430	2,783,359
	<u>865,820</u>	<u>3,838,329</u>
Net Position		
Net investment in capital assets	(271,050)	511,708
Unrestricted	(256,561)	339,560
	<u>(527,611)</u>	<u>851,268</u>
Net Position	<u>\$ 338,209</u>	<u>\$ 4,689,597</u>

**MAURY REGIONAL HOSPITAL****Notes to Combined Financial Statements - Continued****Years Ended June 30, 2017 and 2016****Statements of Revenue, Expenses and Changes in Net Position**

		<b>Year Ended June 30, 2017</b>	
		<b>Imaging</b>	
		<b>Center</b>	<b>VMRO</b>
Operating revenue		\$ 2,976,162	\$ 2,099,900
Operating expenses		2,694,648	1,756,585
Depreciation and amortization		74,368	585,565
INCOME (LOSS) FROM OPERATIONS		207,146	(242,250)
Interest expense		49,072	142,166
EXPENSES		158,074	(384,416)
Capital contributions/transfers		-	520,000
CHANGE IN NET POSITION		158,074	135,584
NET POSITION, BEGINNING OF YEAR		(527,611)	851,268
NET POSITION, END OF YEAR		\$ (369,537)	\$ 986,852

  

		<b>Year Ended June 30, 2016</b>	
		<b>Imaging</b>	
		<b>Center</b>	<b>VMRO</b>
Operating revenue		\$ 2,971,197	\$ 2,055,475
Operating expenses		2,760,765	1,730,755
Depreciation and amortization		67,973	607,287
		142,459	(282,567)
Interest expense		51,843	176,713
DEFICIT OF REVENUE OVER EXPENSES		90,616	(459,280)
Capital contributions/transfers		-	980,000
CHANGE IN NET POSITION		90,616	520,720
NET POSITION, BEGINNING OF YEAR		(618,227)	330,548
NET POSITION, END OF YEAR		\$ (527,611)	\$ 851,268

The Imaging Center owes MRMC approximately \$447,000 and \$507,000 for reimbursement of expenses at June 30, 2017 and 2016, respectively. MRMC made capital contributions to VMRO totaling \$312,000 and \$588,000 for the years ended June 30, 2017 and 2016, respectively.

## MAURY REGIONAL HOSPITAL

### *Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2017 and 2016*

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#### NOTE P--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that should be disclosed in the financial statements.

## **SECTION III**

### **REQUIRED SUPPLEMENTARY INFORMATION**

**MAURY REGIONAL HOSPITAL*****Schedule of Changes in Net Pension Liability and Related Ratios******Years Ended June 30, 2017***

	<b><i>2017</i></b>	<b><i>2016</i></b>
Total pension liability		
Service cost	\$ 293,742	\$ 346,713
Interest	3,821,842	3,781,511
Differences between expected and actual experience	(492,525)	(68,783)
Changes of assumptions	(377,337)	-
Benefit payments	(3,430,639)	(3,255,490)
Net change in total pension liability	(184,917)	803,951
Total pension liability, beginning of year	49,194,608	48,390,657
Total pension liability, end of year	<u>\$ 49,009,691</u>	<u>\$ 49,194,608</u>
Plan fiduciary net position		
Contributions - employer	\$ 980,000	\$ 851,000
Net investment income (loss)	5,386,918	(1,990,259)
Benefit payments	(3,430,639)	(3,255,490)
Administrative expense	(179,476)	(210,087)
Net change in plan fiduciary net position	2,756,803	(4,604,836)
Plan fiduciary net position, beginning of year	39,980,677	44,585,513
Plan fiduciary net position, end of year	<u>\$ 42,737,480</u>	<u>\$ 39,980,677</u>
Net pension liability, end of year	<u>\$ 6,272,211</u>	<u>\$ 9,213,931</u>
Fiduciary net position as a percentage of the total pension liability	87%	81%
Covered payroll	\$ 21,412,759	\$ 21,446,750
Net pension liability as a percentage of covered payroll	29%	43%

# MAURY REGIONAL HOSPITAL

## *Schedule of Actuarial Contributions*

### *Years Ended June 30, 2017*

	2017	2016	2015	2014	2013	2012	2011	2010	2009*	2008*
Actuarially determined contributions	\$ 980,000	\$ 851,000	\$ 802,000	\$ 828,000	\$ 849,000	\$ 728,000	\$ 752,987	\$ 785,010	\$ -	\$ -
Actual employer contributions	980,000	851,000	802,000	828,000	849,000	728,000	752,987	785,010	-	-
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 21,412,759	\$ 21,446,750	\$ 24,915,801	\$ 26,897,136	\$28,852,878	\$29,504,598	\$29,775,815	\$31,543,626	\$33,943,822	\$35,131,145
Contributions as a percentage of payroll	5%	4%	3%	3%	3%	2%	3%	2%	0%	0%

#### Notes to Schedule:

Valuation date:	Actuarially determined contribution rates are calculated as of April 30, one year prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method:	Entry age normal method
Amortization method:	Level percentage of pay
Amortization period:	30 years
Asset valuation method:	Market value of assets
Inflation:	2.5%
Lump sum interest rate:	N/A
Salary increases:	4.0% - 7.5% using an age based salary scale
Investment rate of return:	8.00%
Retirement age:	Normal retirement at 65 years, early retirement at 55 years with 5 years of service
Mortality 2017:	IRS 2017 Static Mortality Table with mortality projected after year 2000 under Projections Scale AA
Mortality before 2017:	1994 Group Annuity Mortality Basic Table with mortality improvement projected to the valuation year under Projection Scale AA

\* No contribution required.

## **SECTION IV**

### **INTERNAL CONTROL AND COMPLIANCE SECTION**



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REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Maury Regional Hospital:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital) as of and for the year ended June 30, 2017, and the related notes to the combined financial statements which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 20, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Pershing Gaskley & Associates, P.C.*

Knoxville, Tennessee  
October 20, 2017

# MAURY REGIONAL HOSPITAL

## *Schedule of Expenditures of Federal Awards*

*Year Ended June 30, 2017*

<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>Program Name</i>	<i>CFDA Number</i>	<i>Grant Number (Grant Period)</i>	<i>Federal Expenditures</i>
U.S. Department of Health and Human Services	N/A	Health Center Program (Community Health Center)	93.224	H80CS26598 (11/1/13 - 1/31/19)	\$ 1,120,485
U.S. Department of Health and Human Services	N/A	Grants for New and Expanded Services Under the Health Center Program	93.527	H80CS26598 (11/1/13 - 1/31/19)	66,609
				Health Center Program Cluster	<u>1,187,094</u>
U.S. Department of Health and Human Services	N/A	Rural Access to Emergency Devices	93.259	D94RH29281 (9/1/15 - 8/31/16)	81,798
U.S. Department of Health and Human Services	State of Tennessee Department of Health	Small Rural Hospital Improvement	93.301	HL00012193 (7/1/16 - 5/31/17)	8,570
Total U.S. Department of Health and Human Services					<u>1,277,462</u>
Total Expenditures of Federal Awards					<u>\$ 1,277,462</u>

## MAURY REGIONAL HOSPITAL

### *Notes to Schedule of Expenditures of Federal Awards*

*Year Ended June 30, 2017*

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#### NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the grant activity of Maury Regional Hospital (the Hospital) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

#### NOTE B--SIGNIFICANT ACCOUNTING POLICIES

*De Minimis Indirect Cost Rate:* The Hospital has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

#### NOTE C--CONTINGENCIES

The Hospital's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Hospital's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Hospital expects such amounts, if any, to be immaterial.

## MAURY REGIONAL HOSPITAL

### *Schedule of Findings and Questioned Costs*

*Year Ended June 30, 2017*

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#### Section I - Summary of Auditor's Results

##### FINANCIAL STATEMENTS

The auditor's report expressed an unmodified opinion on the combined financial statements of Maury Regional Hospital.

##### **Internal control over financial reporting:**

Material weakness(es) identified?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Significant deficiency identified?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Noncompliance material to combined financial statements noted?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

##### FEDERAL AWARDS

The auditor's report on compliance for the major federal award programs for Maury Regional Hospital expresses an unmodified opinion on its major federal programs.

##### **Internal control over major federal programs:**

Material weakness(es) identified?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Significant deficiency identified?	None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes ☐ No ☒

##### **Identification of major federal programs:**

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.224/93.527	U.S. Department of Health and Human Services – Health Center Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes ☒ No ☐

## MAURY REGIONAL HOSPITAL

### *Schedule of Findings and Questioned Costs - Continued*

*Year Ended June 30, 2017*

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#### **Section II - Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the combined financial statements for which *Government Auditing Standards* require reporting.

Not applicable, no findings or questioned costs.

#### **Section III - Federal Award Findings and Questioned Costs**

This section identifies the audit findings required to be reported by 2CFR200 Section 516(a) of the Uniform Guidance (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Not applicable, no findings or questioned costs.

## MAURY REGIONAL HOSPITAL

### *Schedule of Prior Audit Findings*

*Year Ended June 30, 2017*

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***Finding: 2016-01***

*Type of Finding:* Significant deficiency in internal control over financial reporting

*Criteria:* Cash account reconciliations should be done timely and effectively to properly detect errors.

*Context:* The Hospital's process for reconciling a cash account did not appropriately resolve a significant reconciling difference.

*Cause:* When performing the reconciliation of one of the Hospital's cash accounts, the responsible accounting staff person did not appropriately resolve a significant reconciling difference. Also, the review of the reconciliation performed by supervisory accounting staff did not timely detect the deficiency.

*Effect or Potential Effect:* Errors or misstatements may not be identified and corrected.

*Recommendation:* The Hospital's management team should ensure that those who perform and review cash account reconciliations do so timely and effectively.

*Responsible Officials and Corrective Action Planned:* The Hospital's management team will reiterate the importance of cash account reconciliations and performing internal controls.

*Finding Status:* Partially corrected this fiscal year; will complete planned action during the next fiscal year.



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Maury Regional Hospital:

***Report on Compliance for Each Major Federal Program***

We have audited Maury Regional Hospital's (the Hospital) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

### ***Opinion on Each Major Federal Programs***

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### ***Report on Internal Control Over Compliance***

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Pushing Yaskley + Associates, P.C.*

Knoxville, Tennessee  
December 18, 2017